

97-84238-27

Gassiot, John Peter

Monetary panics and their  
remedy, with special...

London

1867

97-84238-27

MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES  
PRESERVATION DIVISION

## BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

332

Z

Gassiot, John Peter, 1797-1877.

v 88

Monetary panics and their remedy, with special  
reference to the panic of 11th May, 1866...

London, E. Wilson, 1867.

21 p. tables. 22 $\frac{1}{2}$  cm.

Vol. of pamph.



ONLY ED

RESTRICTIONS ON USE: Reproductions may not be made without permission from Columbia University Libraries.

## TECHNICAL MICROFORM DATA

FILM SIZE: 35 mmREDUCTION RATIO: 11:1IMAGE PLACEMENT: IA ☒ IIA IB IIBDATE FILMED: 11-10-97INITIALS: JPTRACKING #: 29600

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.



332  
= 88

No 1

*J. L. McKays*

504

LIBRARY OF  
THE REFORM CLUB  
5055 CURRENCY CO. WITTEE,  
52 William St., New York.

# MONETARY PANICS

AND THEIR REMEDY

WITH SPECIAL REFERENCE TO THE PANIC OF

11<sup>TH</sup>. MAY. 1866.

---

BY JOHN P. GASSIOT, FRs.

---

"A short clause added to the Bank Charter Act of 1844 is all that would be required, and we should no longer have the anomaly of the Government being periodically compelled to break the law in order to meet exigencies arising from overtrading.—p. 21.



PUBLISHED BY EFFINGHAM WILSON  
ROYAL EXCHANGE, LONDON.

1867.

PRICE ONE SHILLING.

332  
Z

v. 88

22 June 1919 S. M. S.

Monetary panics or seasons of peculiar pressure with more or less disastrous results, have often occurred, and will necessarily continue to occur from over trading. No experience has prevented, or ever will prevent over trading in some form or other. Commerce engenders speculation, and speculation often leads to over-trading beyond the legitimate claims of commerce itself. The Bank Act of 1844 has not prevented or even retarded improvident speculation, but it *may* nevertheless have rendered essential service. We had our money pressures of 1825, 1836 and 1839, previous to the act of 1844; and subsequently we have had those of 1847, 1857 and 1866, others will undoubtedly follow; but that of 1866 will ever be memorable by the sudden and largest financial stoppage on record—"Thank the act of 1844 that your difficulties are not "aggravated," said Sir Robert Peel in 1847—and the public may again thank that act for the Bank having £13,000,000 of bullion in its coffers on the 10th May, 1866, although the act may have prevented its being immediately available; but is not even the temporary suspension of that act preferable to the risk of the country being reduced to a state of barter, or only to be saved by the issue of one pound notes, as it was in 1825?

Whether it may not be advisable to modify the act of 1844 so far as to permit a temporary extension of

paper currency, is nevertheless worthy of consideration; with the altered state of banking it may be indispensable, and it is one of the objects of the writer to submit various facts and inferences from them, which appear to justify such a course.

It is proposed first to offer to the reader a very brief review of the several money panics of 1825, 1847 and 1866, and secondly, from the experience thereof, to point out that without alteration in the principle of the Bank Act of 1844, which limits the issue of Bank of England notes to its reserve of bullion with the amount of debt due by the Government to the Bank, the ruinous consequences that arise from money panics might be averted.

This aspect of a vitally important question is presented by one who holds that the banker, merchant or broker, who permits his name to be used, or, by his own commercial transactions, fosters and encourages reckless trading, whether under the present popular name of limited liability or otherwise, leads others and often himself to utter ruin, and commits a social crime fraught with greater evils to the community, than it is in the power of the most extravagant spendthrift or gambler to perpetrate.

Any legislative enactment to make the trading community more prudent, would however be most pernicious or futile. Mr. Thompson Hankey in his "Principles of banking," p. 21, says: "I should be sorry to see any interference to prevent persons over-trading or speculating, let everyone invest his own money as he pleases; let everyone trade on what capital he pleases, borrow money at what rate he pleases; but the trading community must be taught at some time or other that no such establishment as the Bank of England can provide ready money beyond a certain clearly-

"established limit, and that limit is the money left by their depositors." Such is the business-like and intelligible language of a Director and past Governor of the Bank of England, and who, as a member of the legislature will most probably take a prominent part in any discussion that may take place in the House of Commons on the recent crisis.

#### PANIC OF 1825.

The failure of the banking firm of Sir Peter Pole & Co. has been considered the first decisive blow to commercial and banking credit in 1825.

The earliest incentive to the excitement of the year arose from the reduction of the interest in Government securities, £135,000,000 of 5 per cent. stock, reduced in 1823; £80,000,000 of 4 per cent. in 1824, and, subsequently, from the acknowledgment of the South American States creating inducements for the community to enter into mining speculations, which were followed by other schemes of every conceivable denomination and character.

Mr. Morier Evans, in his valuable work, entitled "The Commercial Crisis of 1847-8," says that "in 1825, about 300 companies involving capital to the nominal extent of £180,000,000 for the construction of railroads, canals and docks, gas and insurance, banking and sugar, fishing and early milk delivery, were projected." The total amount of the projects of 1825 must however have been much larger, for as early as February of that year a list of 276 Joint Stock Companies for which proposals were then

before the public was published, and of these, 194\* had projected capital amounting to £174,114,050, that of the remaining 82 not being stated.\*

"Persons quite removed from connection with business, retired officers' widows, and single women risked their incomes or their savings in every species of desperate enterprise."† There was no scheme which could be proposed, however preposterous, that would not obtain support from the general public.

The speculative mania of 1825 had previously extended itself more or less to a large majority of the merchants and traders of that day. Mr. Robinson, the Chancellor of the Exchequer, in that year reduced the duties on many articles of importation. A rise in the prices of these, as well as in other articles of consumption, immediately followed, the anticipation of an advance in price was soon no longer confined to articles which thus presented a plausible ground for speculation. "It extended itself to articles which were actually in excess, as Coffee, which with an increased stock advanced 70 to 80 per cent., Spices 100 to 200 per cent., and when a person under the prevailing delusion ventured to enquire for what reason any particular article had risen in price, the common answer was, everything else had risen, therefore this *ought* to rise. ‡

Although the panic of 1825 may have arisen from the reduction of the interest on the Government Stock, followed by the reckless trading of that period, the previous conduct of the Directors of the Bank of England

\* One of the 194 with a projected capital of £10,000 deserves special notice. "A respectable concern that will realise without risk 40 per cent. the first year and from 50 to 60 per cent. per annum subsequently, apply to Mr. —, 11, Old Jewry. 1,000 shares £10 each." — *Times*, 2nd February, 1825.

† *Tooke*, page 40.    ‡ *Ibid*.

does not appear to have been altogether without blame. From the commencement of 1822 to the month of April, 1825, the Bank had increased its circulation about £4,000,000, at that time it had in bullion and coin about £10,000,000 in its coffers, in the following November only £1,300,000 remained. The Directors do not seem to have been aware of the possibility of danger until they found the Bank on the brink of a precipice, when they suddenly diminished the circulation to the extent of £3,500,000. The public became alarmed, a general feeling of distrust arose, many of the country and several of the London bankers stopped payment; and Mr. Huskisson publicly announced that the country was within 24 hours of a state of barter.

At this period a box containing one pound notes which had been accidentally overlooked when the Bank of England called in all their notes under £5, was discovered; it saved the credit of the country.\*

"The Bank Directors at their meeting on Thursday, resolved to introduce £1 and £2 notes, and did so yesterday. A meeting had taken place after a Cabinet Council, between the Directors and Lord Liverpool, who fully approved of the step."† On the 3rd December, 1825, the amount of Bank of England notes in circulation was reduced to £17,477,000, on the 31st of same month they had increased to £25,700,000, in February, 1826, the circulation was reduced about

\* During an anxious sitting of the Board of Directors, a young clerk of the Bank, who is still living, requested permission to see the secretary, he reminded his chief of the box of one pound notes which had not been destroyed; the secretary was at the time described as rushing into the court, several of the directors immediately returning with him in a like state of excitement—rescue was at hand, the good ship was saved.

† *Times*, 17th December, 1825.

£800,000; this reduction gradually continuing, and at the close of that year it was somewhat under £20,000,000.\*

The 1825 panic was at first essentially a banking panic, but the ultimate losses, entailed on a large section of the trading classes who were in no way connected with the speculative mania of that period, either in joint-stock enterprises or in the purchase of merchandize, except what they required for their ordinary trade, were most disastrous.

The late Mr. Rothschild stated to the committee of the House of Commons that "a great many merchants were obliged to send large quantities of goods abroad purposely to draw on the continent to save money."<sup>†</sup>

At that period the usury laws were in force, neither the Bank of England, bankers, nor dealers in money of any description were permitted by law to charge more than 5 per cent. per annum for discounting bills, although they were themselves compelled to raise money (generally from the sale of Government Stock) at an immense sacrifice.‡ The merchant and trader had often no other resource to meet his payments than that of selling his goods for ready money at any price that could at the time be obtained, such sales often by public auction, re-acted on the market value of particular articles thus sold, and consignees of produce were compelled to accept corresponding prices on account of their correspondents abroad.

The subsequent repeal of the usury laws has prevented a recurrence of that great evil; now the loss

\* PORTER'S Progress of the Nation, edition 1851, p. 421.

† Bank charter report.

‡ A banker at the west end, of great wealth, in preference to making a sacrifice, closed his doors for two or three days, and on the day his bank was re-opened, a larger sum was paid in, than drawn out.

arising from any sudden or protracted demand for money entailed on the merchant or trader is generally limited to the addition of three, four or five per cent. rate of discount per annum on a bill of exchange having one, two or three months to run. It only affects those who are in immediate want of money, relieving the more prudent merchant, who, trading with caution, avoids inordinate responsibilities, from the necessity of making ruinous sacrifices to meet his ordinary payments.

There are few instances during panics, since 1844, of a merchant or trader of fair credit and moderate means being refused his usual accommodation by his banker, and if others were obliged to succumb, it will be generally found that their misfortunes arose more by their own imprudent conduct in over-trading than in the impracticability of their obtaining a reasonable amount of trade discounts. There are of course exceptions to this, but it has also transpired that merchants of the highest personal character, reported to have been men of wealth by those with whom they were in constant and almost daily commercial relations had nevertheless been, for years anterior to their failure, in a state of hopeless insolvency.

#### PANIC OF 1847.

The difference between the over-trading by means of joint-stock companies in 1824-5 and the over-trading of 1845-6, appears to have been, that during the first period, joint-stock enterprises were used in the development of foreign mines, by which a large amount of

capital was lost to the country, and in the formation of bubble companies; while in the latter period, the facilities afforded by the creation of joint-stock companies for large and often profitable undertakings, were used for the extension of railways. In 1845-6 or 7 no proposition for the construction of a railway could be proposed, so absurd, that it would not obtain a large application for its shares. Bankers and merchants, Members of the Legislature of both Houses, Peers and Commons, gentlemen of rank and of excellent social position did not hesitate to allow their names to be published as promoters of railway schemes, the success of which could only have been ultimately obtained by the ruin of several competing lines. The personal friendship of Mr. George Hudson, M.P. for Sunderland, was eagerly sought by some of the highest in the land; his appointment to a seat in the direction of any company immediately gave a value to the shares, and those who were fortunate enough to be ranked among his friends, secured to themselves allotments, while the public became purchasers at almost any premium that was demanded.

In September, 1847, 457 schemes were registered, making a total of 1,035 for consideration during the ensuing session of Parliament. It was at this time that Consols at last shewed a tendency to weakness.

Sir Robert Peel had stated that it was the intention of the Government to give every encouragement to the extension of the railway system, while with much display he turned the first sod of the Trent Valley Railway, having Tamworth for one of its principal stations. Sir Robert's sanguine expectations were not fulfilled as he anticipated, for early in October there were unmistakable

symptoms of the enhanced value of money. The bank rate of discount advanced, and the latter end of that month will ever be memorable for the commencement of what has been termed and will be remembered as the panic of 1847.

Now arose the spasmodic rush, to get out at any price became the universal cry. You are to sell, was the order of each principal to his broker; At what price? You are to sell, was the only reply.

To those who may have forgotten the railway mania of preceding years, a perusal of Mr. Morier Evans' work, entitled the Commercial panic of 1847, 1848, (from which quotations are made in these pages), is recommended.

The panic of 1847 was principally a mercantile, and not as in 1825, a banking panic. At this time, in no instance did a run take place on a London bank. Consols fell to 78 $\frac{1}{2}$ ; and Exchequer Bills 37 discount, (GILBART, p. 48) although commanding 3d per diem. The amount of notes in the hands of the public exceeded £21,000,000, and it was stated by the late Mr. Samuel Gurney that at least £4 to £5,000,000 was locked up and in-operative, from the mere fear of not being able to obtain bank notes at all.\*

Deputations from Liverpool and from the manufacturing districts waited on Lord John Russell and Sir Charles Wood. London and country bankers took measures to strengthen their own resources, and at

\* Between the 15th September and 15th November, 1847, the Bank of England made advances, irrespective of the usual mercantile discount to 18 establishments to the extent of £2,800,000.—Evidence of the Governor of the Bank of England before the Committee of the House of Commons.

length it was finally resolved by the London private bankers on the 23rd of October to proceed to Downing-street to ask for a suspension of the Bank Charter Act; the progressive decline of the Bank of England reserve, and the hoarding of notes rendered the fate of the commerce of the country dependant on the reply to the application.

On Monday the 25th October there was no allay of the panic until about mid-day, when a favorable communication signed by Lord John Russell to the governor of the bank was published, it contains the following passage:—"Her Majesty's Government are of opinion that any extra profit derived from this measure should be carried to the account of the public."

A steady advance from this time on Government Securities took place, the bank reserve increased to £4,288,000, and the stock of bullion to £10,000,000.

In 1825 the specie payments were saved by accidentally discovering a box of one pound notes which had been also accidentally preserved (as before mentioned), and in 1847 a general hoarding of bank notes, which would have paralyzed the entire trade of the country, was prevented by the suspension of the Bank Act for 29 days.

In 1825 the *temporary* use of one pound notes relieved the Bank of England from a run for gold, while in 1847 a *temporary* expansion of little more than £8,000,000 of the previously reduced circulation, relieved the general trade of the country.

Whilst in 1847 the country suffered from the consequences of over-trading—it more particularly adapted

itself to railway undertakings, but in the mean time the Bank Act of 1844 had come into operation, London banking establishments had now the opportunity of watching the proceedings of the Bank of England by its weekly publication of the position of its banking department; of the £4 or £5,000,000 described by the late Mr. Samuel Gurney to have been locked up and inoperative, a large portion would probably have been found in the tills of the London bankers over and above their usual resources—it was not, as in 1825, gold or a representative of it in the form of one pound notes, the Bank of England or Bankers required, what was asked was permission to issue a further supply of notes; this was conceded by the Government, and in 29 days the permission was withdrawn being no longer needful.

To the operation of the usury laws in 1825, may in a great measure, be distinctly traced that *aggravation* of the distress among the merchants and bankers of that period. Had it not been for that preposterous law, upheld at the time as a safeguard to the less wealthy and praised as the cause of the gradual prosperity of England, numberless individuals might have been enabled to obtain relief without being compelled to make ruinous sacrifices on the sale of merchandise. Whatever may have been the folly of the railway mania of 1845-6, however ruinous it may have been to those who madly purchased shares at fabulous prices, the property still remained, it was not as in 1825 sunk and lost for ever in the flooded mines of South America. The result of the railway mania of 1845-7 has been the construction of upwards of 13,000 miles of railways, having a paid-up capital of £455,000,000, with nett

receipts of upwards of £18,000,000 per annum, figures so astounding that unless verified by unquestioned statistics they would not be credited.\*

It is not the intention of the writer to dilate on railway management, but there cannot be much doubt that the facilities afforded by the legislature to the formation of branch lines have been ruinous to the property of bona fide investors.

#### PANIC of 1866.

The Bank of England return published in the morning papers of Thursday, 10th May, 1866, showed that the reserve of bank notes in its banking department, including the balances of the London banks and banking companies, amounted to £4,950,325.

In ordinary times, the Court of Directors assemble on Thursdays to fix the minimum rate of interest, which regulates the advertised rate allowed to depositors by the several banks and other money dealers in London. The 10th of May, 1866, being Ascension Day, the Directors attended the parish church, and inquirers at the Bank were informed that the usual meeting of the Court was deferred until a later hour, but the general impression remained that no increase in the bank rate of discount was contemplated, this impression was subsequently confirmed on the rising of the court.

Although cautious men considered that the then high rate of 8 per cent. might possibly be increased, still on

Railways of United Kingdom, 13,289 miles £455,478,143, capital £18,602,562 nett receipts.—From Board of Trade returns.

the 10th of May no apprehension existed of any immediate pressure, it was not until late in the afternoon rumoured that danger was impending, and that the influential firm of Overend, Gurney & Co. had been refused temporary assistance, these rumours were almost simultaneously followed by the closing of the doors of their establishment in Lombard Street.

Mr. Fowler in his able essay,\* in reference to Overend, Gurney & Co., says, "On the 9th May there could not be said to be any general feeling of doubt or alarm as to their position in Lombard Street and elsewhere, in the world over, their name was synonymous with wealth and stability."

Mr. Fowler has truly described the general feeling of the public, previous to the gigantic failure, which occurred too suddenly and too late in the afternoon to enable any one to anticipate what would be the effect, but bankers, merchants and brokers congregated together, anxiously enquiring what might be the result of the stoppage of such an establishment.

In the evening, anxiety was evidently evinced in the House of Commons by those members who from their mercantile experience were but too well aware of the consequences that would ensue, if a sudden uncontrollable money panic should spread, with all its attendant exaggeration, at lightning speed throughout the United Kingdom. It was well known to the members connected with commerce, that Overend, Gurney & Co. held large sums of money on call from country bankers, as well as from the general public, and that these depositors would on the morrow find the resources

\* The Crisis of 1866, a financial essay by William Fowler, L.L.B.

on which they had hitherto, with such confidence relied, no longer available.

An M.P. present in the House of Commons on that evening, himself a partner in a private country bank of great eminence, obtained the assurance of the Chancellor of the Exchequer, that if applied to on the following day by parties properly authorized, the Government would promptly take the state of the money market into consideration. The purport of this conversation was on the following day explained to the Directors of some of the Joint-Stock Banking Companies in the City, as well as to partners of private banks; it for a short time allayed alarm, but now unity of action was required and it was found wanting, each director and each banker contended that his own establishment was invulnerable. Mr. Gladstone received with coyness advice and suggestions offered to him by individual bankers, and before noon it was confidently reported that the Government had, on application, declined to interfere with, or in any way to suspend, the bank charter act. The direct consequence of this report was that at any time after 12 o'clock on the 11th May, 1866, there was probably no price for which the Bank of England, Banks or Bankers, could have obtained Bank of England notes for any amount of Government Stock.

In order clearly to comprehend the frightful consequences that might have ensued, had such a state of things been permitted to continue, it becomes necessary to reflect on the increased extent of the trade of this country since 1844, and to explain how the mercantile community has silently and gradually adapted itself to meet its requirements with so limited an amount of Bank of England notes in ordinary daily circulation.

The following is extracted from the returns of the Board of Trade :—

|                             |        |      |     |              |
|-----------------------------|--------|------|-----|--------------|
| Official value of imports   | ... .. | 1844 | ... | £73,441,555  |
|                             |        | 1865 | ... | £181,806,048 |
| Real value                  | ... .. | 1865 | ... | £271,072,285 |
| The real value not given in | ... .. | 1844 | ... |              |
| Real value of exports       | ... .. | 1844 | ... | £58,584,292  |
|                             |        | 1865 | ... | £105,835,725 |

The total amount of bank notes in circulation is nearly the same as it was in 1825. On the 3rd December, 1825, it had been contracted by the efforts of the Bank to £17,470,000, but on the 31st of same month it had extended to £25,700,000. On the 21st December, 1866, it was £21,973,365, while the highest amount it arrived at during the past year was on the 30th May, when the bank return states it at £26,018,340, or only about £300,000 more than in the corresponding financial epoch of 1825. In reference to the circulation, Mr. Fowler says, "It is a curious fact that in ordinary times less notes are used by the public than in 1844; but on this occasion the same public absorbed about £5,000,000 more notes than they had found requisite even in the panic of 1857. (p. 7.)"

The most casual examination of the progress of the nation since the Bank Act of 1844 was passed, shows that had not the commercial public adopted some means to create an efficient, and for all the ordinary pursuits of internal trade, a safe circulating medium, it would have been impracticable to have carried on the daily monetary transactions of this great commercial country. Attempts have been made, without success, to ascertain the annual amount of receipts and payments that are passed through the Banker's Clearing House, but the writer was informed that in one day it had been ascertained to be upwards of £25,000,000. One private bank in Lombard Street, has paid and received

in one year £12,000,000,000, and in one day upwards of £5,000,000, yet these astounding figures have been exceeded by a Joint Stock Bank. For the daily balances of the clearings of each bank, bank notes are no longer required, as these are paid by cheques on the Bank of England, where they pass from one account to the other without the exhibition of a single bank note. The enormous amount of this circulating medium in London may however be imagined, although it is impossible to ascertain its extent, by the fact that during the past year 1,489,137 cheques were presented through the clearing house, on one bank, of which 9,552 were passed on one day.

Even for duties daily received at the Custom House, bank notes are no longer necessary, as in order to facilitate the transaction of business in this department of the State, these duties can be paid by cheques of Bankers on the Bank of England. All that is required by the receiver, is for the merchant to obtain a cheque for the amount of the duty from his banker, and thus no longer to incur the risk of drawing, from the banker's till, notes which might be lost or stolen in their transit to the Custom House.

To the uninitiated the preceding remarks may tend to explain some of the causes of the comparatively trifling amount of bank notes required in ordinary times for the vast mercantile operations of the Metropolis, and this system of paying by cheques is daily increasing, and more or less applies to every city or town in the United Kingdom. There are few places of any importance, that have not their local bank, where cheques on other banks are received with implicit confidence, and to have a cheque returned from the bank on which it is drawn, except for some clerical error, is probably more rare than it was in former years to receive a forged bank note.

Formerly a depositor could only obtain money from his banker, or make any payment, by a cheque dated within 10 miles of the bank on which it was drawn; this restriction no longer exists, a penny stamp is attached to the cheque, and it becomes as negotiable by endorsement as a bill of exchange. Consequently for the more extended range of currency in Great Britain the necessity for the use of bank notes is also very much reduced.

It is this system, entirely grown up since the passing of the Bank Act of 1844, that has created the real and active currency of this country, a currency regulated by that true principle of free trade, supply and demand, which requires no artificial means for its expansion or contraction, but necessarily adapts itself to the wants and requirements of the day.

It was Richard Cobden, who, on his examination before a parliamentary committee in 1840, said, "Managing the currency and regulating the currency; I consider to be just as possible as the management of the tides or regulating the winds."

By the Act of 1844 the functions of the Bank of England in relation to regulating the currency were entirely changed, as except to the extent of its advances to Government, the issue of its notes was then restricted to the amount of bullion in its possession; it became a mere joint-stock trading bank, but remaining the bank of deposit for Government monies, it is necessarily one of paramount importance, as Mr. Thomson Hankey\* justly argues, "It is no part of the function of the Bank of England to keep money at all times to supply the

\* Principles of Banking, by Thomson Hankey, Esq., M.P., formerly Governor of the Bank of England, [1861, p. 25.

"demands of bankers who have rendered their own assets "unavailable." Banks or Bankers ought no more to rely on the assistance of the Bank of England than one merchant should rely on the assistance of another, friendly or intimate as they may be.

Since 1844 a new monetary power has arisen, ten years previously (1834) the first joint-stock bank was established in London, but so slow was the development of this important principle of banking in England, that 17 years subsequently (1851), in Porter's last edition of "the Progress of the Nation," there is scarcely any allusion made therein to the Joint-Stock Banks of London. In 1844 the aggregate amount of current and of deposit balances of these Banks in the published returns for some of which acceptances are included, amounted only to £8,160,000; on 31st December, 1866, they were upwards of £80,000,000. A list of the banks with their progress is inserted in the appendix.

Accusations have from time to time appeared in the public papers impugning the management of the Joint Stock Banks of London, and Mr. J. B. Smith, M.P. for Stockport, has published his views thereon.\* After extolling the management of the Bank of England, he alludes to the amount of reserves of the three principal Joint-Stock Banks of London, discarding from those reserves all consols or other Government securities which they may hold. He says, "Can any system be more unsound or dangerous than that pursued by these Joint Stock Banks," (p. 11.) *The answer to this is that if consols and other Government stock held by banks are not to be*

\* A letter addressed to Malcolm Ross, Esq., president of the Manchester Chamber of Commerce by John Benjamin Smith, Esq., M.P.:-"London and Manchester, 1866.

*considered by the public as reserves in case of need, the sooner they are practically made so the better.*

Mr. Watkins, M.P. for Stockport, coadjutor in its representation, with Mr. J. B. Smith, stated, in reference to the last panic that "the Bank Directors sent and "borrowed Bank notes of their customers to prevent their "infringing the act, and the act was not infringed."\* The Directors thus securing to their Proprietors all the advantage of the high rate of discount, which was for so long a period extracted from the public. This was clearly not the intention of the late Chancellor of the Exchequer.

The well known writer of an article in "Frazer's Magazine," August, 1866, also says, "That the letter of "the law was only saved by London bankers responding to "an appeal from the Bank Court to pay *every night* to the "banking department, all the notes which under ordinary "circumstances would have remained in the tills of the "bankers themselves."

The panic of 1866 was in this manner met without the law being literally broken, but it nevertheless showed the possibility of a contingency on any day occurring for which no foresight could provide. This contingency being a period of hoarding when neither the Bank of England, nor any Bank, can obtain Bank of England notes for any amount of Government Stock. IT IS THE ONLY CONTINGENCY THAT CAN ENDANGER A PRUDENTLY CONDUCTED BANK.

The writer has shewn that a practical currency has been created since the passing of the Act of 1844, which meets the wants of the country in ordinary times, if this be the case no other alteration in the act is required, than a clause to meet such a difficulty as the above which

\* Times, 1st August, 1866.

may so suddenly arise. Any attempt to *tinker* that Act, with the idea of *permanently* expanding paper currency would be most mischievous. It might certainly assist reckless trading, we should have finance companies on some far more gigantic scale than heretofore, but without the Act we should assuredly find ourselves drained of our gold, and, unless we resorted once more to one pound notes, be reduced to, what Mr. Huskisson described, a state of barter.

Mr. Higley, the City manager of the London and Westminster Bank, some time since suggested to the writer that the Government should be empowered through, but independent of the Bank of England, at any time to make temporary loans on the security of Government stock, at a high rate of interest.

Coinciding in the view that in times of panic the utmost facilities should be offered for obtaining advances on Government securities, the writer considers that it may be objectionable to delegate to any Government the power to grant or refuse those advances, the object could be attained in a more simple form, and it might then very possibly be never required, for the late Mr. Tooke truly described a panic to be an alarm beyond the occasion, and if there were no inducement for the hoarding of notes, the great cause of monetary panics would cease.

In ordinary times there are always facilities for such loans being obtained on the Stock Exchange at a very moderate rate of interest, but in times of panic we have evidence to the contrary.

The Bank Act of 1844 authorises the Bank of England to issue notes beyond its reserve of gold to the extent of £14 to £15,000,000 on the security of the credit of the country. What magic can exist in these figures, why should not the Act permit the amount (on the deposit of Government

stock at the Bank of England without any application to Government), to be *temporarily* increased if the necessities of the public require it? the Country to obtain the benefit arising from the measure, the Bank of England receiving a moderate payment for the use of its notes so employed, and taking charge of the securities on account of Government. A high rate of interest charged for such advances would effectually prevent any undue expansion of the currency, but in order to further discourage such applications, the advance need not be made for less than a fixed amount, say £100,000, or for a less period than one month, and for this, one per cent. per month, or twelve per cent. per annum might be charged.

As no prudent bank can exist without holding Government stock, the practical effect on an over-trading would be the requiring of such aid in *time of panic*, and for which each Bank would have to pay the same penalty other wealthy traders did pay, who required discounts in 1866; the country and not the Bank of England proprietary would then receive the advantage of lending bank notes on the security of its stock, while Directors, Shareholders and Bankers would be left to settle their own affairs among themselves, depositors remaining as now at perfect liberty to take their option of leaving their balances with their respective bankers or putting their notes into old stockings, the final resource of the extremely prudent in the time of panic.

A short clause added to the Bank Charter Act of 1844 is all that would be required, and we should no longer have the anomaly of the Government being periodically compelled to break the law in order to meet exigencies arising from over-trading.

TOTAL AMOUNT OF DEPOSITS WITH THE UNDERMENTIONED BANKS AT THE CLOSE OF THE FOLLOWING YEARS:—

| Year. | London & Westm. | London & Jnt. Stk. | Union.        | London & County. | City.     | Bank of London. | Imperial. | Alliance. | Metz, & Prov. | Consolidated. | East London. | Total      |
|-------|-----------------|--------------------|---------------|------------------|-----------|-----------------|-----------|-----------|---------------|---------------|--------------|------------|
| 1834  | 180,380         | ...                | ...           | ...              | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 180,380    |
| 1835  | 266,884         | ...                | ...           | ...              | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 266,884    |
| 1836  | 643,332         | ...                | ...           | ...              | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 643,332    |
| 1837  | 793,148         | 504,101            | ...           | ...              | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 1,387,249  |
| 1838  | 1,387,855       | 1,145,421          | ...           | 186,477          | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 2,719,753  |
| 1839  | 1,266,845       | 1,035,688          | ...           | 351,275          | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 2,653,208  |
| 1840  | 1,361,545       | 1,170,893          | 377,755       | 437,995          | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 3,348,188  |
| 1841  | 1,499,328       | 1,403,188          | 503,550       | 581,279          | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 3,987,345  |
| 1842  | 2,087,757       | 1,771,739          | 745,988       | 858,802          | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 5,464,286  |
| 1843  | 2,219,624       | 2,046,285          | 956,457       | 996,082          | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 6,218,448  |
| 1844  | 2,676,741       | 2,245,330          | 2,012,548     | 1,231,412        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 8,166,031  |
| 1845  | 3,590,014       | 2,460,476          | 1,591,200     | 1,489,738        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 9,131,428  |
| 1846  | 3,280,864       | 2,446,017          | 2,170,310     | 1,588,585        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 9,485,726  |
| 1847  | 2,733,753       | 1,971,912          | 2,510,064     | 1,225,120        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 8,440,849  |
| 1848  | 3,089,659       | 2,328,056          | 2,644,728     | 1,354,730        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 9,417,173  |
| 1849  | 3,680,623       | 2,792,507          | 2,835,617     | 1,675,494        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 10,984,241 |
| 1850  | 3,969,648       | 2,949,869          | 2,963,583     | 2,030,238        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 11,913,338 |
| 1851  | 4,677,298       | 3,157,575          | 3,094,316     | 2,465,768        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 13,394,957 |
| 1852  | 5,581,706       | 3,591,506          | 4,268,438     | 3,281,003        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 16,723,253 |
| 1853  | 6,259,540       | 5,010,623          | 4,878,731     | 3,417,130        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 19,566,024 |
| 1854  | 7,177,244       | 6,161,154          | 7,031,477     | 3,779,944        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 24,149,819 |
| 1855  | 8,744,095       | 6,241,594          | 8,363,460     | 4,443,359        | ...       | ...             | ...       | ...       | ...           | ...           | ...          | 27,792,508 |
| 1856  | 11,438,461      | 7,224,527          | 9,045,606     | 3,543,824        | 944,475   | 1,114,843       | ...       | ...       | ...           | ...           | ...          | 33,311,736 |
| 1857  | 13,889,021      | 10,737,580         | 10,874,640    | 3,533,425        | 1,388,933 | 1,256,624       | ...       | ...       | ...           | ...           | ...          | 41,680,223 |
| 1858  | 11,465,815      | 9,367,122          | 9,032,134     | 4,264,126        | 1,749,747 | 1,300,902       | ...       | ...       | ...           | ...           | ...          | 37,180,446 |
| 1859  | 11,115,697      | 9,536,797          | 9,318,391     | 4,975,029        | 2,222,076 | 1,599,140       | ...       | ...       | ...           | ...           | ...          | 38,788,030 |
| 1860  | 12,484,454      | 10,562,658         | 10,352,703    | 5,532,614        | 2,468,560 | 1,697,389       | ...       | ...       | ...           | ...           | ...          | 43,068,378 |
| 1861  | 15,384,735      | 11,381,751         | 11,795,231    | 6,909,629        | 3,206,781 | 1,927,907       | ...       | ...       | ...           | ...           | ...          | 50,606,034 |
| 1862  | 13,898,736      | 11,472,733         | 12,876,355    | 7,517,504        | 3,208,931 | 3,228,675       | 480,123   | 1,019,160 | 501,604       | ...           | ...          | 54,212,821 |
| 1863  | 15,629,094      | 14,056,731         | 16,472,278    | 9,334,638        | 3,525,975 | 4,170,294       | 696,439   | 2,788,093 | 784,108       | 4,006,558     | ...          | 71,383,208 |
| 1864  | 18,649,215      | 20,252,966         | 18,807,393    | 12,211,353       | 4,916,209 | 4,314,967       | 1,199,607 | 6,048,076 | 517,443       | 4,070,073     | 316,196      | 91,363,528 |
| 1865  | 19,224,571      | 18,215,358         | 17,794,293    | 12,851,815       | 4,859,720 | 4,335,877       | 1,543,281 | 2,504,168 | 860,068       | 3,817,968     | 422,278      | 86,429,397 |
| 1866  | 22,672,558      | 15,306,237         | 19,267,467    | 12,750,974       | 3,926,622 | ...             | 1,247,864 | 1,574,598 | 301,384       | 3,085,271     | 584,890      | 80,717,865 |
|       |                 |                    | August, 1866. |                  |           |                 |           |           |               |               | June, 1866   |            |

NOTE.—The acceptances of the London and Westminster Bank are not included in the above.

**END OF  
TITLE**